



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

REPORT OF THE AUDITOR-GENERAL TO THE NORTH WEST PROVINCIAL LEGISLATURE AND THE COUNCIL OF RATLOU LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ratlou Local Municipality set out on pages ... to ... which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP), the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Unauthorised expenditure

6. Section 125(2)(d)(i) of the MFMA requires disclosure of all material unauthorised expenditure. Unauthorised expenditure of R1 782 355 incurred during the year due to overspending on votes have not been included in the unauthorised expenditure disclosed in note 30.3 to the financial statements. Furthermore, unauthorised expenditure of R11 486 015 incurred in the current year was incorrectly disclosed as "condoned" without following the process prescribed



by section 32 of the MFMA. Consequently, I was unable to determine whether any adjustments to unauthorised expenditure disclosed in note 30.3 of the financial statements were necessary.

Irregular expenditure

7. Section 125(2)(d)(i) of the MFMA requires disclosure of all material irregular expenditure. Contrary to this requirement, payments made in contravention of the supply chain management regulations were not disclosed as irregular expenditure. I was unable to determine the full extent of irregular expenditure or confirm by alternative means. Furthermore, irregular expenditure of R34 128 512 incurred in the current year, was incorrectly disclosed as “condoned” without following the process prescribed by section 32 of the MFMA. Consequently, I was unable to determine whether any adjustments on irregular expenditure disclosed in note 30.2 to the financial statements were necessary.

Qualified opinion

8. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Ratlou Local Municipality as at 30 June 2013 and the financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

10. As disclosed in note 28 to the financial statements, the corresponding figures for 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the Ratlou Local Municipality at, and for the year ended 31 March 2012.

Material impairments

11. As disclosed in note 2 to the financial statements, a material impairment of R7 938 413 was incurred as a result of the impairment of trade debtors.

Material underspending of conditional grants

12. As disclosed in notes 17.4 and 17.9 to the financial statements, the municipality has materially underspent the Municipal Infrastructure Grant by R7 545 120 and the Ngaka Modira Molema District Municipality Grant by R2 712 757. As a consequence, the municipality has not achieved its objectives with regards to the purposes of the grants.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

14. The supplementary information set out on pages [XX] to [XX] does not form part of the financial statements and is presented as additional information. I have not audited these annexures and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury framework for managing programme performance information (FMPPI).
18. The reliability of the information in respect of the selected development objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
19. The material findings are as follows:

Usefulness of information

20. The Municipal Systems Act 32 of 2000 (MSA), section 41(c) for municipalities requires that the integrated development plan should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 23% of the reported targets are not consistent with the targets as per the approved integrated development plan. This is due to the fact that management was aware of the requirements of MSA section 41(c) but did not receive the necessary training to enable application of the principles.
21. The FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 44% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.
22. The FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 52% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not receive the necessary training to enable application of the principles.

Reliability of information

23. The FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Significantly important targets with respect to development priorities “Basic Service Delivery and Infrastructure Development” and “Local Economic Development” are not reliable when compared to the source information and/or evidence provided. This was due to the lack of frequent review of validity of reported achievements against source documentation.

Additional matter

24. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

25. Of the total number of 193 targets planned for the year, 78 of targets were not achieved during the year under review. This represents 41% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning.



Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows.

Strategic planning and performance management

27. The annual performance report for the year under review did not include the performance of each external service provider, as required by section 46 (1)(a) of the MSA.
28. The municipality did not have and maintain effective, efficient and transparent systems of internal controls regarding performance management as required by section 62(1)(c(i) of the MFMA.
29. The performance management system of the municipality did not provide for taking steps to improve performance with regard to those development priorities and objectives where performance targets are not met, as required by section 41 (1)(d) of the MSA.

Budget

30. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.

Financial statements and annual performance report

31. The financial statements submitted for audit were not in all material respects prepared in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of prepayments, related parties, trade and other receivables, trade and other payables, property plant and equipment, VAT, Revenue, unspent conditional grants and provisions identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

Audit committee

32. The audit committee did not assess the effectiveness of the internal audit function, including compliance with the Institute of Internal Auditors' Standards for the professional practice of internal audit as per paragraph 12 of the audit committee charter.

Expenditure management

33. The accounting officer did not take effective steps to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
34. Money owed by the municipality was not always paid within 30 days or an agreed period, as required by section 65(2)(e) of the MFMA.

Conditional grants

35. Unspent conditional grants were not surrendered to the National Revenue Fund as required by section 21 of the DORA.

Procurement and contract management

36. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by supply chain management regulation 13(c).
37. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations as required by supply chain management regulation 17(a) & (c).
38. Evaluation of awards above R30 000 in terms of requirements of Preferential Procurement

Regulations, 2011(PPR) regulation 4(3) and 5 was not always done.

39. Awards were made to providers who are persons in service of other state institutions or whose directors/ principal shareholders are persons in service of other state institutions, in contravention of supply chain management regulation 44.
40. Awards were made to providers whose directors/ principal shareholders are close family member of the persons in the service of the municipality, in contravention of supply chain management regulation 44.
41. Employees of the department performed remunerative work outside their employment in the department without written permission from the relevant authority as required by section 30 of the Public Service Act.
42. Management did not regularly analyse the cost effectiveness of creating a permanent capacity or training existing own staff versus using a consultancy, while ensuring continuity and service delivery as required by Practice Note 3 of 2003 paragraph 1.5.
43. Construction contracts were awarded to contractors does not have suitable grading for the construction contracts awarded to them, in accordance with Construction Industry Development Board (CIDB) regulation 21.
44. Construction projects were not always advertised on the CIDB website, as required by CIDB regulation 24.
45. Competitive bidding was advertised less than 30 days in contravention with supply chain management regulation section 22.
46. Bid specifications were not always done for each instance of procurement of goods or services by the municipality as required supply chain management regulation 27.

Consequence management

47. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to recover from the person liable, in accordance with the requirements of section 32(2) of the MFMA.
48. The condoning of irregular expenditure was not approved by the appropriate authority, in accordance with the requirements of sections 1 and 170 of the MFMA.
49. Council certified the unauthorised, irregular and fruitless and wasteful expenditure as irrecoverable without conducting an investigation by council committee to determine the recoverability of the expenditure, as required by section 32(2) of the MFMA.

Waste management

50. The municipality operated its waste disposal sites(s) and wastewater treatment facilities without a license or permit in contravention of section 20(b) of the National Environmental Management Waste Act, 2008 (Act No. 59 of 2008) (NEMWA), section 24(2)(a) of the National Environmental Management Act, 1998 (Act No. 107 of 1998) (NEMA), section 20(1) of the Environmental Conservation Act, 1989 (Act No. 73 of 1989) (ECA) and section 22(1)(b) of the National Water Act, 1998 (Act No. 36 of 1998) (NWA).
51. The municipality's operational activities at its waste disposal sites(s) and wastewater treatment facilities contravened or failed to comply with the requirements of a waste management permit or license and the regulatory provisions in terms of section 67(1)(f)&(h) of the NEMWA and section 29(4) of the ECA in instances where such were issued.
52. The municipality's waste management and disposal activities contravened or failed to comply with the requirements of section 28(1) of the NEMA, section 19 of the NWA and sections 16(1)(c)&(d) and 26(1)(b) of the NEMWA.

Internal control

53. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with



laws and regulations included in this report.

Leadership

54. The leadership did not sufficiently exercise oversight over financial and performance reporting, monitoring of compliance with laws and regulations and related internal controls whilst policies and procedures did not adequately guide financial and performance activities and action plans to address prior year audit findings. Furthermore, policies and procedures are not adequately communicated, to ensure that all officials understand the operations of the municipality and can implement the procedures as required.

Financial and performance management

55. The accounting officer did not implement proper record keeping in a timely manner to ensure that documentation is accessible and available to support financial reporting. Management's internal controls and processes over the preparation and presentation of financial statements were not able to ensure that the financials were free from material misstatements. Management failed to design and implement formal controls to review and monitor performance management and compliance with applicable laws and regulations.

Governance

56. The risks identified during the risk assessment process relating to financial and performance reporting and compliance with laws and regulations were not adequately addressed in the risk management strategy adopted by the municipality. The audit committee did not adequately provide oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

OTHER REPORTS

Investigations

57. Investigations to probe the procurement of goods and services, theft and malicious damages to municipal property in the prior years, are being conducted by the Hawks. The investigations are still ongoing at the reporting date.

Auditor General

Rustenburg

30 November 2013



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